



Served February 5, 1996  
**Order 96-2-2**

**UNITED STATES OF AMERICA  
DEPARTMENT OF TRANSPORTATION  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C.**

Issued by the Department of Transportation  
on the 5th day of February, 1996

**INTRA-ALASKA BUSH SERVICE  
MAIL RATES INVESTIGATION**

**Docket 44445**

**ORDER TO SHOW CAUSE ESTABLISHING  
FINAL BUSH SERVICE MAIL RATES**

**SUMMARY**

By this order the Department proposes to establish new intra-Alaska bush service mail rates for the period April 1, 1996, through March 31, 1997. The rates that are currently in effect were established by Order 95-7-30, served July 28, 1995, for the period April 1, 1995, through March 31, 1996.

We would hope to issue a final rate order in this matter prior to April 1, for the full 12-month period beginning on that date<sup>1</sup>. However, if we are unable to do so, the final rates that we subsequently establish will become effective on the date of issue of the finalizing order.

Under previous practice, the rates currently in effect would be extended after March 31 as temporary rates until we establish new final rates, subject to retroactive adjustment when the new final rate order is issued. However, as we discuss in more detail below, we have decided to discontinue that practice because of the hardship that resulting retroactive adjustments impose in the form of either payback obligations, especially on small bush air carriers, that are in some cases substantial, or financial and administrative burdens on the U.S. Postal Service. Rather, we will extend the current rates as final rates until we issue an order making final the rates proposed in this order, thus eliminating any retroactive adjustments<sup>2</sup>. The action we are taking here is the same action we recently took with respect to the Alaska mainline service mail rates for the first half of 1996. See Order 95-12-32, served December 29, 1995.

All interested persons are requested to show cause why the findings and conclusions contained in this order should not be adopted.

<sup>1</sup> Toward that objective we are prescribing a 20-day period, rather than a 30-day period, for Answers to this order.

<sup>2</sup> We will amend paragraph (2) of our tentative findings and conclusions in Order 95-6-31, served July 6, 1995, to extend the rates established therein beyond March 31, 1996, as final rates rather than as temporary rates, until further order of the Department. Ordering paragraph 1 of Order 95-7-30 made final the tentative findings and conclusions contained in Order 95-6-31.

## DISCUSSION

The proposed final rates, which are contained in Appendix A, reflect the usual application of cost adjustment factors, developed in Appendix B, to the basic mail rate structure established by the Department in Order 90-10-34. The data bases used to adjust these rates cover operations for the 12-month periods ended September 30, 1994, and 1995, and reflect the carriers' actual costs of operations for those periods. We have previously used data for the 12 months ended March to construct the rate for the year beginning April 1st. Under that process, however, proposed new rates could not be calculated, issued and made final until we were several months into the rate year (carriers' data for the year ended March are not filed with the Department until mid-May). This certainly contributed to the problem of high retroactive adjustments that have been a burden to both the carriers and the Postal Service following the issuance of a number of past rate orders. As we discuss below (see Other Matters section), it is in the carriers' and the Postal Service's interests to remedy this problem, and changing the data base period to enable more timely issuance of new rate orders will facilitate that goal.<sup>3</sup>

The proposed final rates for the 12-month period ending March 31, 1997, differ from the final rates for the 12-month period ending March 31, 1996, by the amounts shown in the following table:

	<u>YE 3-31-96</u>	<u>YE 3-31-97</u>	<u>%CHANGE</u>
Linehaul Charge per Billing Ton-Mile (dollars)	\$ 6.5091	\$ 7.2406	11.24%
Terminal Charge per Pound Originated (dollars)	\$ 0.3260	\$ 0.3770	15.64%

The combination of the proposed linehaul and terminal charges produces proposed rates for the year ending March 31, 1997, that are 13.58 percent higher than those in effect for the prior period for an average mail length of haul of 88 miles. Besides the change in the cost year data

used to construct the rates, there are two additional reasons for the sharp increase in both the linehaul and terminal charges. First, under our current methodology, we estimated that the cost per block hour for the mid-point of the cost year ending March 31, 1996, to be \$286.02 (Order 95-6-31, Appendix B, column 5). In fact, the cost per block hour for the year ended September 30, 1995, was \$312.37 (Appendix B, column 3 of this order), or 9.20 percent higher than forecast. Similarly, in Order 95-6-31, Appendix B, column 5, we estimated the cost per weighted departure for the mid-point of the cost year ending March 31, 1996, to be \$46.82. The actual cost per weighted departure for the year ended September 30, 1995, was \$50.45, or 7.75 percent higher than forecast. Secondly, in calculating the cost changes from the 12-month period ended September 30, 1994 to the 12-month period ended September 30, 1995, we have excluded data for MarkAir Express for the first time<sup>4</sup>. MarkAir Express did not file its 298-C Reports for the quarter ended September 30, 1995, until January 3, 1996 (the 298-C Reports for that quarter were due on November 15, 1995), and their reports contain significant inconsistencies for the third quarter of 1995 that we have not yet been able to resolve. Consequently, we have decided to exclude MarkAir Express's data from our bush mailrate calculations.

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<sup>3</sup> For now, we have decided to use the carriers' data for the 12-months ended September rather than the 12-months ended December for two reasons. First, data for December are not filed with the Department until mid-February, leaving only six weeks until the start of the next rate period. Second, we use data from approximately 16 bush carriers to determine the rate (unlike the Mainline rate where we are now using data from only two carriers) and this process takes a few weeks in order to verify the correctness of all the carriers' data submissions. Thus, it is necessary to rely on the carriers' data for the 12-months ending September to enable the final rate to be in place at or near the beginning of the next rate period.

<sup>4</sup> MarkAir Express ceased all Alaska bush mail service effective November 18, 1995, at the same time that they filed for Chapter 11 bankruptcy. MarkAir Express currently operates all-cargo service in Alaska, but they only carry mail at the mainline rate on this service.

## OTHER MATTERS

On October 26, 1995, Department staff met in Anchorage, Alaska, with the Alaska Air Carrier Association, and with representatives of the U.S. Postal Service and individual Alaska bush and mainline carriers. This meeting was an integral part of a comprehensive review the Department's staff undertook this year into the Alaska mail rate methodology and related issues. The staff analyzed a series of 13 primary issues which it distributed to the parties prior to the conference in Anchorage. As a result of that conference the parties reached a consensus on most issues, including the desirability of considering changes to the existing rate update methodology. A full report on all of the issues will be made available to the parties upon its completion. However, we will address in this order several of the issues on which the parties expressed major concern.

First, a number of carriers argued that MarkAir Express should have been excluded from recent rate calculations because of the bankruptcy filing by MarkAir. They argued that MarkAir Express's costs were affected by that development and were thus not fairly representative of the bush carrier class. We have not found persuasive evidence at this time that would prompt an unprecedented ~~post hoc~~ adjustment to any prior rates. However, we are carefully examining the issue as part of the aforementioned comprehensive review of Alaska mail ratemaking concerns. For now, we have decided to exclude MarkAir Express's data from our mailrate calculations for the reasons described above.

There was virtual unanimity on two other issues, i.e. that we should seek, first, to reduce the wide swings in rates that sometimes occur from one rate period to the next and, second, to eliminate the burden of retroactive payments that are exacerbated by such swings.

The parties informally asked for approximately a year during which to analyze various rate update methods, including a number of possible alternatives suggested by the Department's staff. In the meantime, the parties recommended that the Department continue to use the current calculation methodology for the coming year, provided that the new rates be established in a manner that eliminates any further retroactive adjustments.

In accordance with that informal agreement, we will continue with our current methodology in constructing both the Bush and Mainline mail rates for now, pending our receipt of the parties' analyses and recommendations. We ask the parties to submit their analyses and recommendations by October 1, 1996, to enable us to fully consider and implement any appropriate changes for the rate periods beginning in 1997.

As we noted above, the new rates we are proposing here for the 12 months ending March 31, 1997, for the Alaska Bush carriers will not be made effective until we take final action on them. We recognize the hardship that is imposed, particularly on the smaller bush carriers, from any significant retroactive payment obligation, and we can eliminate such burdens by discontinuing the ~~temporary~~ feature of the rates we initially propose for any particular period<sup>5</sup>. Thus, we will order here that the currently effective final Alaska Bush rates (see Order 95-7-30) shall remain in effect as the final rates until we issue a new final order with respect to the rates we are proposing here<sup>6</sup>.

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<sup>5</sup> Under the provisions of 49 U.S.C. 41901 (b), the Department has the authority to set the effective date of the mail rates to be paid by the USPS to the carriers. Inherent in that authority is the ability to change the effective date(s) of the rates when circumstances warrant. Those circumstances are clearly warranted here where the party paying the bill (USPS) has informally agreed that the action we are taking here is an acceptable means of resolving the problems created by retroactive payment obligations.

<sup>6</sup> Since an order making final the rates proposed here may not be issued by March 31, 1996, it is necessary therefore to amend paragraph (2) of the tentative findings and conclusions of Order 95-6-31 to extend the rates established in that order (those rates and the tentative findings and conclusions contained in that order were made final by Order 95-7-30) as final rates for the period beginning April 1, 1996, until further order of the Department.

The Department tentatively finds and concludes that:

(1) The fair and reasonable final rates of compensation to be paid in their entirety by the Postmaster General pursuant to the provisions of 49 U.S.C. 41901 for the transportation of mail by aircraft having a payload of 7,500 pounds or less, the facilities used and useful therefor, and the service connected therewith, by each holder of a certificate authorizing the transportation of mail by aircraft within the State of Alaska, for the period beginning with the final order with respect to the rates proposed here through March 31, 1997, are those specified in the attached Appendix A; and

(2) The fair and reasonable final rates of compensation for the transportation of mail within the State of Alaska by aircraft having a payload of 7,500 pounds or less for the period beginning April 1, 1997, until further order of the Department, shall be the final rates established for the period ending March 31, 1997.

**ACCORDINGLY,**

1. We direct all interested persons to show cause why the Department should not adopt the foregoing tentative findings and conclusions and fix, determine and publish the proposed final rates specified in Appendix A for the period April 1, 1996, through March 31, 1997, or until further order of the Department, whichever occurs later;

2. We direct all interested persons having objections to the tentative findings and conclusions or to the rates proposed here to file a notice of objection within ten (10) days after the date of service of this order and, if such notice is filed, to file a written answer and any supporting documents within 20 days after the date of service of this order;

3. If no notice is filed, or if after notice no answer is filed within the designated time, or if a timely filed answer raises no material issue of fact, we will deem all further procedural steps waived. We then will enter a final order incorporating the tentative findings and conclusions set forth here and establishing the final rates specified in the attached Appendix A;

4. We amend paragraph (2) of the tentative findings and conclusions contained in Order 95-6-31 to read as follows:

(2) The fair and reasonable final rates of compensation for the transportation of mail within the State of Alaska by aircraft having a payload of 7,500 pounds or less for the period beginning April 1, 1996, until further order of the Department, shall be the final rates established for the period April 1, 1995, through March 31, 1996; and

5. We shall serve this order upon all parties to this proceeding.

By:

**CHARLES A. HUNNICUTT**  
Assistant Secretary for Aviation  
and International Affairs

(SEAL)

